



Australia: The Third Sphere Steps Up

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Australia has around 700 local governments. They are extremely varied with populations ranging from less than a hundred to nearly a million, and areas from a few square kilometers to the size of a small country. By international standards, the average population of some 30,000 is fairly large, but in economic terms the local government sector in Australia is quite small. Its functions are generally limited to municipal services and local infrastructure. It raises less than three percent of all taxes and its annual expenditures of around \$20 billion AUD account for only 2.5 percent of Gross Domestic Product. Its place in the federation is undefined and at risk: local government is not recognized in the Australian constitution and is established wholly under state laws. Democratically elected councils can be dismissed by state governments, boundaries changed without referenda, and all aspects of local administration subjected to detailed state control.

Local government's limitations are especially apparent in metropolitan regions, which are managed principally by state agencies. Larger cities are divided into numerous local government areas, whose councils find it difficult to play a strategic role in metropolitan planning and development. Brisbane is to some extent an exception, as the City Council governs around

half the metropolitan area and is a major provider of urban infrastructure and public transport. Even there, however, there is increasing state control as a result of pressures arising from metropolitan expansion far beyond the city's boundaries, combined with growing concerns about water supplies.

All this might suggest very weak local government, and in some respects that is certainly the case. Smaller rural and remote councils have extremely limited capacity to provide services and depend heavily on state and federal support. Yet local government as a whole is more than 80 percent self-funding, and in several areas of public administration – roads, recreation, waste disposal and in some states water supply and sewerage – it plays a leading role. In general, local government's revenue base matches its functions quite well, and larger councils are able to operate quite autonomously and promote the well-being of their communities across a broad range of activities.

By contrast, all state governments are heavily dependent on transfers from the federal government. State autonomy has declined steadily for the past half-century due to High Court interpretations of the constitution and loss of taxation powers to the federal government, which as a result of its financial strength now dominates almost all key areas of public policy.

Local government has been deeply affected by this shifting balance of power. The federal government has become by far the greatest source of funding support for councils, providing over \$3 billion per annum in general and special-purpose grants. Indeed, federal support has been one of the key drivers of a major expansion in local government's role over the past half-century. Arguably, it has also enabled state governments to shift some of their responsibilities and associated costs on to local councils ("cost shifting").

As well as providing financial assistance, the federal government has forged direct working relationships with councils, both singly and through regional groupings, and has supported local government representation in a wide range of intergovernmental forums. All this has occurred "outside" the constitution, which is largely silent on intergovernmental relations, and which could well be interpreted as prohibiting direct federal transfers to local government if the states were ever to mount a challenge.

Local government is now represented in virtually all those federal forums in which it has a specific interest. Those include around 14 councils of federal and state ministers, plus the peak Council of Australian Governments comprising the federal prime minister, state premiers, territory chief ministers and the president of the Australian Local Government Association (ALGA).

Since the early 1980s there has been a federal minister with the words "local government" in his or her title. In 1995 the federal government and ALGA negotiated a "Commonwealth-Local Government Accord" that articulated shared policy agendas. This was short-lived, as the conservative coalition

elected in 1996 initially favoured a more traditional “states rights” agenda. In recent years, however, that same government has taken various steps to strengthen federal-local relations, which are probably now closer than ever. These have included “Roads to Recovery” grants paid directly to councils; federal inquiries into local government’s financial position; negotiation of a tripartite intergovernmental agreement on cost shifting; and a parliamentary resolution recognizing local government as part of the federal system.

These moves undoubtedly reflect the situation of a conservative federal government confronted by Labor governments in all states and territories, and which thus finds it convenient to engage at local and regional levels through cooperation with councils. However, they are also a manifestation of underlying changes in the Australian federation.

The question now for Australian local government is how to capitalize on recent advances and secure its federal presence. Can it really justify its claim to be the “third sphere” in the federation? It faces a number of challenges in that regard. First is financial sustainability: recent inquiries have shown that around 25 to 40 percent of councils – mainly smaller rural and regional councils – may be unsustainable in the medium term. Their evident lack of capacity undermines the credibility of local government as a whole, as does a “poor cousin” or mendicant mindset that also pervades some larger councils.

Secondly, local government needs to reinforce its position in the system of government. Amongst other things, this means increasing community support by deepening local democracy, and demonstrating its capacity to provide better local and regional governance through effective strategic planning, coordinated service delivery and cooperation between councils.

Thirdly, local government has to strike the right balance in its relations with federal and state spheres. It needs close links with the increasingly powerful federal government, but remains legally subject to the states and cannot afford to compete with them for federal support. Most of the time Australia still operates as a two-tier federation, and local government also needs to work hard to maintain productive state-local relations and to convince the states of its value as a partner.

Recognition in the federal constitution has become a much-desired goal for many in local government. However, it is doubtful whether any achievable constitutional amendment would make a real difference to existing arrangements. To enhance its status, local government must address its weaknesses and prove itself capable of sustaining a broader role.

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